

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Pellston	County Emmet
Fiscal Year End February 28, 2007	Opinion Date July 24, 2007	Date Audit Report Submitted to State August 30, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

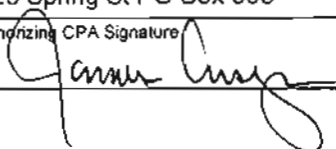
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin)
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Hill Schroderus & Co., LLP		Telephone Number 231-347-4136	
Street Address 923 Spring St PO Box 695		City Petoskey	State MI
Zip 49770		License Number 1101012888	
Authorizing CPA Signature 		Printed Name James Cusenza	

FINANCIAL REPORT
VILLAGE OF PELLSTON
EMMET COUNTY
February 28, 2007

VILLAGE OF PELLSTON
FINANCIAL REPORT
February 28, 2007

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	2
Statement of Activities	3
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Proprietary Funds:	
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Fund Net Assets	9
Statement of Cash Flows	10
Notes to Financial Statements	11-24
Required Supplemental Information	
Budgetary Comparison Schedules:	
General Fund	25
Major Street Fund	26
Local Street Fund	27
Fire Fund	28



July 24, 2007

Independent Auditors' Report

Village President and Council
Village of Pellston, Michigan

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Village of Pellston, Michigan, as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Pellston, as of February 28, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village of Pellston has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined to supplement, although not required to be part of the basic financial statements.

Hill Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

Village of Pellston
Statement of Net Assets
February 28, 2007

	Primary Government Governmental Activities	Component Unit Downtown Development Authority
<u>Assets</u>		
Current Assets		
Cash	\$ 612,708	\$ 11,034
Taxes receivable	31,404	-
Due from other governmental units	41,254	-
Total current assets	<u>685,366</u>	<u>11,034</u>
Noncurrent Assets		
Capital assets	2,154,409	-
Less: accumulated depreciation	<u>(1,016,754)</u>	<u>-</u>
Total noncurrent assets	<u>1,137,655</u>	<u>-</u>
Total assets	<u>\$ 1,823,021</u>	<u>\$ 11,034</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 6,189	\$ -
Accrued expenses	7,349	-
Accrued interest	21,789	-
Notes payable, due within one year	5,000	-
Bonds payable, due within one year	<u>55,300</u>	<u>-</u>
Total current liabilities	<u>95,627</u>	<u>-</u>
Noncurrent Liabilities		
Notes payable, noncurrent	35,000	-
Bonds payable, noncurrent	<u>569,700</u>	<u>-</u>
Total noncurrent liabilities	<u>604,700</u>	<u>-</u>
Total liabilities	<u>700,327</u>	<u>-</u>
Net Assets		
Invested in capital assets, net of related debt	667,967	-
Restricted for:		
Construction of village hall	106,293	-
Debt service	87,406	-
Unrestricted	<u>261,028</u>	<u>11,034</u>
Total net assets	<u>1,122,694</u>	<u>11,034</u>
Total liabilities and net assets	<u>\$ 1,823,021</u>	<u>\$ 11,034</u>

Village of Pellston
Statement of Activities
For the Year Ended February 28, 2007

Functions/Programs	Program Revenues				Net (Expense) Revenue and	
	Expenses	Charges for Services	Operating Grants and Contributions		Changes in Net Assets	
			Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit Downtown Development Authority
Primary Government						
Governmental activities:						
General government	\$ 71,794	\$ -	\$ -	\$ -	\$ (71,794)	\$ -
Public safety	121,849	59,772	775	5,949	(55,353)	-
Public works	178,185	-	82,091	-	(96,094)	-
Health and welfare	1,200	-	-	-	(1,200)	-
Community and economic development	4,625	1,145	-	-	(3,480)	-
Recreation and culture	34,113	-	-	-	(34,113)	-
Interest on long-term debt	26,801	-	-	-	(26,801)	-
Total primary government	\$ 438,567	\$ 60,917	\$ 82,866	\$ 5,949	\$ (288,835)	-
Component Unit						
Downtown Development Authority	\$ -	\$ -	\$ -	\$ -	-	-
General revenues:						
Property taxes					200,996	-
State shared revenues					90,717	-
Interest and rentals					8,351	34
Gain on sale of property					77,825	-
Other					4,417	-
Total general revenues					382,306	34
Change in net assets					93,471	34
Net assets - beginning of year					1,029,223	11,000
Net assets - end of year					\$ 1,122,694	\$ 11,034

See accompanying notes to the basic financial statements.

Village of Pellston
Balance Sheet
Governmental Funds
February 28, 2007

<u>Assets</u>	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Fire</u>	<u>1996 GO Debt</u>
Cash	\$ 116,801	\$ 9,699	\$ 12,375	\$ 33,851	\$ 75,337
Taxes receivable	20,684	-	-	-	10,720
Due from other governmental units	25,904	9,769	5,581	-	-
Due from other funds	12,494	-	-	-	-
Total assets	<u>\$ 175,883</u>	<u>\$ 19,468</u>	<u>\$ 17,956</u>	<u>\$ 33,851</u>	<u>\$ 86,057</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 6,189	\$ -	\$ -	\$ -	\$ -
Accrued expenditures	7,349	-	-	-	-
Due to other funds	-	4,084	2,809	1,214	-
Total liabilities	<u>13,538</u>	<u>4,084</u>	<u>2,809</u>	<u>1,214</u>	<u>-</u>
Fund balances					
Reserved for:					
Debt service	-	-	-	-	86,057
Village Hall project	-	-	-	-	-
Unreserved:					
Undesignated	<u>162,345</u>	<u>15,384</u>	<u>15,147</u>	<u>32,637</u>	<u>-</u>
Total fund balances	<u>162,345</u>	<u>15,384</u>	<u>15,147</u>	<u>32,637</u>	<u>86,057</u>
Total liabilities and fund balances	<u>\$ 175,883</u>	<u>\$ 19,468</u>	<u>\$ 17,956</u>	<u>\$ 33,851</u>	<u>\$ 86,057</u>

See accompanying notes to the basic financial statements.

1996 MI Transportation GO Debt	Village Hall Project	Fire Sinking Fund	General Equipment Fund	Total Governmental Funds
\$ 1,349	\$ 308,314	\$ 31,922	\$ 3,401	\$ 593,049
-	-	-	-	31,404
-	-	-	-	41,254
-	-	-	-	12,494
<u>\$ 1,349</u>	<u>\$ 308,314</u>	<u>\$ 31,922</u>	<u>\$ 3,401</u>	<u>\$ 678,201</u>
\$ -	\$ -	\$ -	\$ -	\$ 6,189
-	-	-	-	7,349
-	-	-	-	8,107
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,645</u>
1,349	-	-	-	87,406
-	308,314	-	-	308,314
-	-	31,922	3,401	260,836
<u>1,349</u>	<u>308,314</u>	<u>31,922</u>	<u>3,401</u>	<u>656,556</u>
<u>\$ 1,349</u>	<u>\$ 308,314</u>	<u>\$ 31,922</u>	<u>\$ 3,401</u>	<u>\$ 678,201</u>

Village of Pellston
Reconciliation of Governmental Funds Balance Sheet to the
Statement of Net Assets
February 28, 2007

Total Fund Balance - Governmental Funds	\$ 656,556
---	------------

Amounts reported for governmental activities in the statement of net assets
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of net assets, these assets are capitalized and depreciated
over their estimated useful lives.

Governmental capital assets	1,968,902
Accumulated depreciation	(877,280)

Governmental funds report interest when due, whereas in the statement of net assets, interest is accrued on outstanding bonds and notes.	(21,789)
---	----------

Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	(665,000)
---	-----------

The internal service fund is used to charge motor vehicle usage costs to various departments within the Village. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets.	<u>61,305</u>
--	---------------

Net Assets of Governmental Activities	<u>\$ 1,122,694</u>
---------------------------------------	---------------------

Village of Pellston
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended February 28, 2007

	General	Major Street	Local Street	Fire	1996 GO Debt
Revenues					
Property taxes	\$ 132,388	\$ -	\$ -	\$ -	\$ 68,608
State shared revenues	90,717	47,624	30,922	775	-
Contributions from local units	-	-	-	949	-
Charges for services	1,145	-	-	59,772	-
Interest and rentals	5,391	207	250	866	792
Other	4,417	-	-	-	-
Total revenues	<u>234,058</u>	<u>47,831</u>	<u>31,172</u>	<u>62,362</u>	<u>69,400</u>
Expenditures					
Current:					
General government	70,208	-	-	-	-
Public safety	-	-	-	58,446	-
Public works	59,079	48,299	25,653	-	-
Health and welfare	1,200	-	-	-	-
Community and economic development	4,625	-	-	-	-
Recreation and culture	31,233	-	-	-	-
Capital Outlay	85,879	-	-	-	-
Debt service	-	-	-	7,025	49,979
Total expenditures	<u>252,224</u>	<u>48,299</u>	<u>25,653</u>	<u>65,471</u>	<u>49,979</u>
Excess (deficiency) of revenues over expenditures	<u>(18,166)</u>	<u>(468)</u>	<u>5,519</u>	<u>(3,109)</u>	<u>19,421</u>
Other financing sources (uses)					
Sale of property	77,825	-	-	-	-
Operating transfers in	-	-	2,500	20,000	-
Operating transfers out	(20,000)	(8,711)	-	(14,175)	-
Bond proceeds	-	-	-	-	-
Total other financing sources (uses)	<u>57,825</u>	<u>(8,711)</u>	<u>2,500</u>	<u>5,825</u>	<u>-</u>
Net change in fund balances	<u>39,659</u>	<u>(9,179)</u>	<u>8,019</u>	<u>2,716</u>	<u>19,421</u>
Fund balances - beginning of year	<u>122,686</u>	<u>24,563</u>	<u>7,128</u>	<u>29,921</u>	<u>66,636</u>
Fund balances - end of year	<u>\$ 162,345</u>	<u>\$ 15,384</u>	<u>\$ 15,147</u>	<u>\$ 32,637</u>	<u>\$ 86,057</u>

See accompanying notes to the basic financial statements.

1996 MI Transportation GO Debt	Village Hall Project	Fire Sinking Fund	General Equipment Fund	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 200,996
-	-	-	-	170,038
-	-	5,000	-	5,949
-	-	-	-	60,917
65	-	451	1	8,023
-	-	-	-	4,417
<u>65</u>	<u>-</u>	<u>5,451</u>	<u>1</u>	<u>450,340</u>
-	86	-	-	70,294
-	-	2,626	-	61,072
-	-	-	-	133,031
-	-	-	-	1,200
-	-	-	-	4,625
-	-	-	-	31,233
-	-	-	-	85,879
14,572	-	-	-	71,576
<u>14,572</u>	<u>86</u>	<u>2,626</u>	<u>-</u>	<u>458,910</u>
<u>(14,507)</u>	<u>(86)</u>	<u>2,825</u>	<u>1</u>	<u>(8,570)</u>
-	-	-	-	77,825
6,211	3,400	10,775	3,400	46,286
-	-	-	-	(42,886)
-	305,000	-	-	305,000
<u>6,211</u>	<u>308,400</u>	<u>10,775</u>	<u>3,400</u>	<u>386,225</u>
(8,296)	308,314	13,600	3,401	377,655
<u>9,645</u>	<u>-</u>	<u>18,322</u>	<u>-</u>	<u>278,901</u>
<u>\$ 1,349</u>	<u>\$ 308,314</u>	<u>\$ 31,922</u>	<u>\$ 3,401</u>	<u>\$ 656,556</u>

Village of Pellston
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended February 28, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 377,655
--	------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation.

Expenditures for capital assets	85,879
Current year depreciation	(110,311)

Governmental funds report bond and note proceeds as an other financing source, while repayment of principal is reported as an expenditure.

Proceeds from issuance of bond	(305,000)
Repayment of bond and note principal	50,000

Interest on long-term debt is recognized as an expenditure when it is due in the governmental funds. However, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.

9,734

The internal service fund is used to charge motor vehicle usage costs to various departments within the Village. The net revenue (expense) of the internal service fund is included in the governmental activities in the statement of activities.

(14,486)

Change in Net Assets of Governmental Activities

\$ 93,471

Village of Pellston
Statement of Net Assets
Proprietary Funds
February 28, 2007

Assets

Governmental Activities-
Internal Service Fund

Current Assets

Cash	\$	19,659

Noncurrent Assets

Capital assets		185,507
Less: accumulated depreciation		(139,474)

Total noncurrent assets		46,033

Total assets	\$	65,692

Liabilities and Net Assets

Current Liabilities

Due to other funds	\$	4,387

Net Assets

Invested in capital assets, net of related debt		46,033
Unrestricted		15,272

Total net assets		61,305

Total liabilities and net assets	\$	65,692

Village of Pellston
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended February 28, 2007

	<u>Governmental Activities- Internal Service Fund</u>
Operating revenues	
Charges for services	\$ 41,839
Operating expenses	
Personal services	17,149
Supplies	13,400
Utilities	3,910
Insurance	3,386
Repairs	5,016
Depreciation	10,392
Total operating expenses	<u>53,253</u>
Operating income (loss)	(11,414)
Nonoperating revenues (expenses)	
Interest revenue	<u>328</u>
Income (loss) before operating transfers	(11,086)
Other financing sources (uses)	
Operating transfers out	<u>(3,400)</u>
Change in net assets	(14,486)
Total net assets - beginning	<u>75,791</u>
Total net assets - ending	<u><u>\$ 61,305</u></u>

Village of Pellston
Statement of Cash Flows
Proprietary Fund
For the Year Ended February 28, 2007

	Governmental Activities- Internal Service Fund
Cash flows from operating activities	
Cash received from other funds for services	\$ 48,860
Cash payments to suppliers for goods and services	(29,854)
Cash payments to employees for services	(12,762)
	<hr/>
Net cash provided (used) by operating activities	6,244
Cash flows from non-capital financing activities	
Operating transfers-out to other funds	(3,400)
Cash flows from investing activities	
Interest received	328
	<hr/>
Net increase (decrease) in cash	3,172
Cash, beginning	<hr/>
	16,487
Cash, ending	<hr/>
	\$ 19,659
Reconciliation of operating income to net cash provided (used by) operating activities	
Operating income (loss)	
Adjustments to reconcile operating income to net cash provided by operating activities:	<hr/>
Depreciation	
Increase (decrease) in amounts due to other funds	10,392
(Increase) decrease in amounts due from other funds	245
	<hr/>
Total adjustments	7,021
	<hr/>
Net cash provided (used) by operating activities	17,658
	<hr/>
	\$ 6,244

VILLAGE OF PELLSTON
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Pellston was incorporated under the provisions of Act 3 of 1895. The Village operates under a Council-President form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

The Village's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The Village's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary funds and similar component units in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the Village of Pellston:

REPORTING ENTITY

These financial statements present the Village (the primary government) and its component unit. As defined by GASBS No. 14, component units are legally separate entities that are included in the Village's reporting entity because of the significance of their operating or financial relationships with the Village. The primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Downtown Development Authority – The Downtown Development Authority, which was established pursuant to the provisions of Public Act 197 of 1975, as amended, is governed by a nine person board. The purpose of the Authority is to prevent the deterioration and promote economic growth within a specified business district. The Authority is funded by a specified annual property tax capture of a portion of all units' levies which may only be used for activities within the tax increment finance district. Separate financial statements for the Downtown Development Authority are not issued.

BASIC FINANCIAL STATEMENTS – OVERVIEW

The Village of Pellston's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from legally separate component units for which the primary government is financially accountable.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the Village as an entity and the change in the Village's net assets resulting from the current year's activities.

The internal service fund is consolidated into the governmental column when presented at the government-wide level. This is because the principal users of the internal service are the Village's governmental activities. The net profit/loss in the internal service fund is allocated to the functional activity (public safety, public works, etc.) based upon usage.

In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Village's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

The program revenues must be directly associated with the function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the Village are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental or business-type categories. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

Governmental Funds

General Fund – The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Major and Local Street Funds – The Street Funds account for the operation of the street departments. Primary financing is provided by the Village's share of state gasoline taxes. State law requires these gasoline taxes be used to maintain streets.

Fire Fund – The Fire Fund accounts for the operation of the Fire Department. Funding is provided by local townships, grants and transfers from the General Fund which the Village uses to provide public safety services.

1996 General Obligation and 1996 Michigan Transportation General Obligation Debt Funds – The Debt Funds accounts for the payment of interest and principal on long-term bonds.

Fire Sinking Fund – The Fire Sinking Fund accounts for transfers from other funds and donations for the purpose of acquiring fire equipment for the fire department.

Village Hall Project – The Village Hall Project Fund accounts for the expenditure of the proceeds of the 2007 general obligation bonds for the purpose of acquiring, and renovating a new village hall.

General Equipment Fund – The General Equipment Fund accounts for transfers from other funds for the purpose of acquiring new equipment for the village as needed.

Proprietary Funds

The focus of the proprietary funds is upon the determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to for-profit businesses. The following is a description of the non-major proprietary fund of the Village:

Motor Vehicle and Equipment Fund – The Motor Vehicle and Equipment Fund is an internal service fund. This fund accounts for the cost of acquiring, maintaining and providing vehicle and equipment usage to various Village departments.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing/delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Village's proprietary fund are charges to customers for services. Operating expenses for this fund includes the cost of sales (wages, insurance and rent) and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

All proprietary funds, pension trust funds and agency funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from other funds" on the balance sheet of the fund financial statements and are eliminated on the Statement of Net Assets of the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED

Capital Assets

Capital assets, which include property, buildings, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. Capital assets are recorded by the Village when the initial individual costs are equal to or greater than \$5,000.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Streets, Curbs and Gutters	10 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years

Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

COMPARATIVE DATA

Comparative data for the prior year is not included in the Village's financial statements.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all operating funds of the Village. Budgetary control is legally maintained at the fund level.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 1, the Village President submits to the Village Council a proposed operating budget for the upcoming fiscal year. The operating budget includes proposed expenditures/expenses and the means of financing them.
2. A public hearing is conducted at the Village Hall to obtain taxpayer comments.
3. Prior to March 1, the fund budgets are legally enacted through passage of resolutions.
4. The Village President is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures/expenses of any fund must be approved by the Village Council.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. Budgeted amounts are as originally adopted, or as amended by the Village Council.
7. Encumbrances, which are commitments related to unperformed contracts for goods or services, lapse at year-end and are re-appropriated as part of the subsequent year's budget.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Village is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. During the year, the Village incurred expenditures in the following fund which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Appropriation</u>	<u>Amount of Expenditures</u>	<u>Variance</u>
Major Street	\$ 49,000	\$ 57,010	\$ (8,010)

NOTE 3: CASH

Michigan Compiled Laws, Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village's deposits and investment policy are in accordance with statutory authority.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 3: CASH – CONTINUED

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At February 28, 2007, the carrying amount of the Village's deposits, including the fiduciary fund, was \$623,742 and the bank balance was \$626,143. Of the above balance in cash, \$103,414 was covered by federal depository insurance. The Village may experience significant fluctuations in deposit balances throughout the year.

NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of July 1 on the State taxable valuation of property in the Village as of the preceding December 31. The Village bills and collects its own property taxes. Property taxes are recognized as revenue in the year for which they are levied.

The Village is permitted by charter to levy taxes, subject to State Headlee and Truth in Taxation provisions, up to \$12.50 per \$1,000 of taxable valuation for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on general obligation long-term debt. The 2007 State taxable valuation of the Village of Pellston totaled \$13,742,729.

The tax rates for the year ended February 28, 2007, were as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General governmental services	9.4884 per \$1,000
Payment on principal and interest on general obligation long-term debt	4.9925 per \$1,000

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES

The interfund balances within the primary government are as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$ 12,494	\$ -
Major Street Fund	-	4,084
Local Street Fund	-	2,809
Fire Fund	-	1,214
Internal Service Funds	-	4,387
	<u>\$ 12,494</u>	<u>\$ 12,494</u>

NOTE 6: INTERFUND TRANSFERS

Operating transfers within the primary government are as follows:

	Transfer In	Transfer Out
General Fund	\$ -	\$ 20,000
Major Street Fund	-	8,711
Local Street Fund	2,500	-
Fire Fund	20,000	14,175
1996 MI Transp GO Debt Fund	6,211	-
Village Hall Project	3,400	-
General Equipment	3,400	-
Sinking Fund-Fire	10,775	-
Internal Service Fund	-	3,400
	<u>\$ 46,286</u>	<u>\$ 46,286</u>

The operating transfers are mainly for public safety operations and debt service.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7: CAPITAL ASSETS

Capital asset activity of the Village's primary government for the current year was as follows:

	Balance March 1, 2006	Additions	Deletions	Balance February 28, 2007
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 46,300	\$ -	\$ -	\$ 46,300
Construction in progress	-	80,209	-	80,209
	<u>46,300</u>	<u>80,209</u>	<u>-</u>	<u>126,509</u>
 Capital Assets Being Depreciated:				
Buildings	364,000	-	-	364,000
Equipment	49,898	5,670	-	55,568
Vehicles	719,249	-	-	719,249
Infrastructure	889,083	-	-	889,083
	<u>2,022,230</u>	<u>5,670</u>	<u>-</u>	<u>2,027,900</u>
 Less Accumulated Depreciation:				
Buildings	(130,820)	(7,280)	-	(138,100)
Equipment	(20,198)	(5,091)	-	(25,289)
Vehicles	(362,033)	(63,878)	-	(425,911)
Infrastructure	(383,000)	(44,454)	-	(427,454)
	<u>(896,051)</u>	<u>(120,703)</u>	<u>-</u>	<u>(1,016,754)</u>
 Net Capital Assets Being Depreciated	<u>1,126,179</u>	<u>(115,033)</u>	<u>-</u>	<u>1,011,146</u>
 Governmental Activities Net Capital Assets	<u>\$ 1,172,479</u>	<u>\$ (34,824)</u>	<u>\$ -</u>	<u>\$ 1,137,655</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7: CAPITAL ASSETS – CONTINUED

Depreciation expense was charged to the primary government as follows:

Governmental Activities

General government	\$ 1,500
Public safety	60,777
Public works	45,154
Recreation and culture	2,880
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>10,392</u>
Total depreciation expense - governmental activities	<u>\$ 120,703</u>

Construction Commitments

The Village has an active construction project at year-end.

<u>Project</u>	<u>Project Estimates</u>	<u>Expended to 02/28/07</u>	<u>Committed</u>
Village Hall Project	<u>\$ 450,000</u>	<u>\$ 80,209</u>	<u>\$ 361,239</u>

Proprietary Fund Type Property, Plant and Equipment

Proprietary fund type property, plant and equipment at February 28, 2007 are summarized as follows:

	<u>Internal Service</u>
Buildings	\$ 35,000
Equipment	14,258
Vehicles	<u>136,249</u>
Total	185,507
Less: accumulated dep.	<u>(139,474)</u>
Net	<u>\$ 46,033</u>

NOTE 8: LEASE AGREEMENT WITH THE FRIENDSHIP CENTERS

The Village of Pellston senior center building was constructed on land leased to the Friendship Centers for a term of 20 years starting on September 1, 1986. This lease will automatically renew for an additional 20 years, unless the lessee cancels at the end of the first 20 years. At the expiration of this lease, the property and building will revert to the Village. During the term of the lease, the lessee agrees to provide programs primarily for the benefit of senior citizens. The lessor agrees to provide snowplowing, water service and pay for up to \$1,200 of utilities per year.

NOTE 9: DEFINED BENEFIT PENSION PLAN**Plan Description**

The Village of Pellston participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

Members of the Village of Pellston are required to contribute 3% of their annual compensation. The Village is required to contribute any additional amounts necessary to fund the system using the actuarial basis specified by statute. The contribution requirements of plan members and the Village are established and may be amended by the MERS board.

Annual Pension Cost

For the fiscal year ended February 28, 2007, the Village's required and actual contributions were \$1,652. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal funding method. Significant actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses); and (b) projected salary increases of 4.50% per year. Both (a) and (b) included an inflation component of 3% to 4%. The actuarial value of the Village's assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. The Village's unfunded actuarial accrued liabilities are amortized by a level percent of payroll contributions over a 30 year period.

Three-Year Trend Information for the Village of Pellston

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
02-28-05	\$ 1,445	100%	-
02-29-06	2,214	100%	-
02-28-07	1,652	100%	-

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 9: DEFINED BENEFIT PENSION PLAN – CONTINUED

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/04	\$ 117,451	\$ 141,067	\$ 23,616	83%	\$ 59,413	40%
12/31/05	129,234	151,449	22,215	85%	61,505	36%
12/31/06	*	*	*	*	*	*

* Information not currently available.

NOTE 10: LONG-TERM DEBT

The following is a summary of the Village's long-term debt transactions for the year ended February 28, 2007:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
Bonds and notes payable:					
General obligation bonds	\$ 365,000	\$ 305,000	\$ (45,000)	\$ 625,000	\$ 55,300
Promissory notes	45,000	-	(5,000)	40,000	5,000
Total governmental activities long-term liabilities	<u>\$ 410,000</u>	<u>\$ 305,000</u>	<u>\$ (50,000)</u>	<u>\$ 665,000</u>	<u>\$ 60,300</u>

Long-term liabilities payable at February 28, 2007 is composed of the following individual issues:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 10: LONG-TERM DEBT – CONTINUED

Bonds and Notes (Governmental Activities):

\$475,000, 1996 general obligation bonds due in annual installments of \$35,000 to \$55,000 through May 1, 2011, interest at 5.40 to 5.90 percent. \$ 245,000

\$150,000, 1996 Michigan Transportation general obligation bonds due in annual installments of \$10,000 to \$20,000 through May 1, 2011, interest at 5.40 to 5.90 percent. 75,000

\$305,000 2007 general obligation bonds due in annual installments of \$5,300 to \$17,400 through September 1, 2036 interest at 4.30 percent 305,000

\$54,000, 2003 promissory note due in annual installments of \$3,000 to \$5,000 through October 1, 2013, interest at 4.50 percent. 40,000

Total governmental activities long-term liabilities \$ 665,000

The annual requirements to amortize all general obligation bonds and notes outstanding, as of February 28, 2007, are as follows:

Annual Requirements to Amortize Outstanding Bonds and Notes February 28, 2007

Year Ending February 28	General Obligation		Notes	
	Principal	Interest	Principal	Interest
2008	\$ 55,300	\$ 36,809	\$ 5,000	\$ 2,025
2009	65,600	26,509	5,000	2,025
2010	70,800	23,159	5,000	2,025
2011	76,100	19,024	5,000	2,025
2012	81,400	14,549	5,000	2,025
2013-2017	36,200	57,139	15,000	6,075
2018-2022	45,000	48,507	-	-
2023-2027	56,200	37,747	-	-
2028-2032	70,100	24,354	-	-
2033-2036	68,300	7,605	-	-
Total	<u>\$ 625,000</u>	<u>\$ 295,402</u>	<u>\$ 40,000</u>	<u>\$ 16,200</u>

NOTE 11: RESERVE FUND BALANCES/RESTRICTED NET ASSETS

Major Governmental Funds

Reserved for debt service – The Debt Service Funds have \$87,406 reserved for debt service and related costs.

Reserved for Village Hall project – The Village Hall fund has \$308,314 reserved for remodeling costs of the Village Hall.

NOTE 12: RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Village belongs to the Michigan Municipal League Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Village pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the Village could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Settled claims have not exceeded coverage in any of the past three years.

NOTE 13: SUBSEQUENT EVENTS

In March 2007, the Village was awarded a \$20,500 grant by Emmet County Revenue Sharing Board to be used for purchasing and training of a jaws unit.

In April 2007, the Village committed \$34,000 to the Pellston Downtown Streetscape and Trail Corridor Project.

REQUIRED SUPPLEMENTAL INFORMATION

Village of Pellston
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Beginning of year fund balance	\$ 185,612	\$ 185,612	\$ 122,686	\$ (62,926)
Resources (inflows)				
Property taxes	112,000	112,000	132,388	20,388
State shared revenues	88,600	88,600	90,717	2,117
Charges for services	400	400	1,145	745
Interest and rentals	5,500	5,500	5,391	(109)
Sale of property	-	-	77,825	77,825
Other	1,600	1,600	4,417	2,817
Amounts available for appropriation	393,712	393,712	434,569	40,857
Charges to appropriations (outflows)				
General government				
Council	2,800	2,800	2,870	70
President	7,400	7,400	7,622	222
Clerk	11,300	11,300	14,291	2,991
Treasurer	6,600	6,600	6,139	(461)
Elections	1,000	1,000	-	(1,000)
Village hall	11,500	11,500	9,349	(2,151)
Village proper	20,700	22,301	20,032	(2,269)
Legal	4,000	4,000	3,150	(850)
Other	16,500	16,500	6,755	(9,745)
Public safety				
Marshall	5,000	5,500	-	(5,500)
Public works				
Department of public works	61,700	61,700	34,193	(27,507)
Sidewalks	5,000	5,000	-	(5,000)
Street lighting	15,000	15,000	14,486	(514)
Refuse collection/disposal	1,500	1,500	1,716	216
Clean up	6,000	8,684	8,684	-
Health and welfare				
Friendship Centers	2,700	2,700	1,200	(1,500)
Community and economic development				
Planning and zoning	4,000	4,550	4,425	(125)
Economic development	5,000	5,000	200	(4,800)
Recreation and cultural				
Parks and recreation	23,700	27,883	26,754	(1,129)
Library	500	500	500	-
Historical	2,600	4,600	3,979	(621)
Capital Outlay	26,000	61,000	85,879	24,879
Transfer to Fire Fund	21,600	26,600	20,000	(6,600)
Total charges to appropriations	262,100	313,618	272,224	(41,394)
Ending budgetary fund balance	\$ 131,612	\$ 80,094	\$ 162,345	\$ 82,251

Village of Peliston
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended February 28, 2007

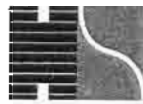
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
Beginning of year fund balance	\$ 38,500	\$ 38,500	\$ 24,563	\$ (13,937)
Resources (inflows)				
State shared revenues	41,000	41,000	47,624	6,624
Interest income	280	280	207	(73)
	<u>79,780</u>	<u>79,780</u>	<u>72,394</u>	<u>(7,386)</u>
Amounts available for appropriation				
Charges to appropriations (outflows)				
Public works	-	-	-	-
Road repair and maintenance	36,500	36,500	48,299	11,799
Transfer to debt service fund	7,500	7,500	6,211	(1,289)
Transfer to local street	5,000	5,000	2,500	(2,500)
	<u>49,000</u>	<u>49,000</u>	<u>57,010</u>	<u>8,010</u>
Total charges to appropriations				
Ending Budgetary fund balance	<u>\$ 30,780</u>	<u>\$ 30,780</u>	<u>\$ 15,384</u>	<u>\$ (15,396)</u>

Village of Pellston
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended February 28, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Beginning of year fund balance	\$ 7,501	\$ 7,501	\$ 7,128	\$ (373)
Resources (inflows)				
State shared revenues	28,000	28,000	30,922	2,922
Interest income	50	50	250	200
Transfer from major street	5,000	5,000	2,500	(2,500)
Amounts available for appropriation	40,551	40,551	40,800	249
Charges to appropriations (outflows)				
Public works				
Road repair and maintenance	32,000	32,000	25,653	(6,347)
Transfer to debt service fund	7,500	7,500	-	(7,500)
Total charges to appropriations	39,500	39,500	25,653	(13,847)
Ending Budgetary fund balance	\$ 1,051	\$ 1,051	\$ 15,147	\$ 14,096

Village of Pellston
Required Supplemental Information
Budgetary Comparison Schedule
Fire Fund
For the Year Ended February 28, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Beginning of year fund balance	\$ 45,305	\$ 45,305	\$ 29,921	\$ (15,384)
Resources (inflows)				
State grants	1,500	1,500	775	(725)
State shared revenues	-	-	-	-
Contributions from local units	3,500	3,500	949	(2,551)
Charges for services	60,076	60,076	59,772	(304)
Transfer from General Fund	30,000	30,000	20,000	(10,000)
Interest income	200	200	866	666
Amounts available for appropriation	140,581	140,581	112,283	(28,298)
Charges to appropriations (outflows)				
Public safety	84,080	83,080	58,446	(24,634)
Debt service	7,125	7,125	7,025	(100)
Transfer to building/sinking fund	3,400	3,400	3,400	-
Transfer to fire sinking fund	20,000	20,000	10,775	(9,225)
Total charges to appropriations	114,605	113,605	79,646	(33,959)
Ending budgetary fund balance	\$ 25,976	\$ 26,976	\$ 32,637	\$ 5,661



July 24, 2007

COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES IN INTERNAL
CONTROL AND OTHER MATTERS

Village President and Council
Village of Pellston
Emmet County, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the discretely presented component unit, and each major fund of the Village of Pellston as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Pellston's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Organization of Records: As we previously noted in a similar communication on September 16, 2005, the organization of the Village's records should be improved so that the clerk has custody of all original documents pertinent to the Village's financial management. We noted that the fire department maintains records on various grants; the treasurer maintains paid invoices; the bond attorney had to be contacted for bond information, etc. The new Village offices should provide an opportunity for the clerk to collect original documents for organized filing. These should be kept in central village files with copies maintained as necessary by others.

Treasurer and Clerk: The treasurer and clerk should meet on a regular basis to reconcile their records. We noted that the clerk is not always aware of deposits before month end, intended bank transfers do not always occur timely resulting in NSF charges, that some invoices were paid twice (see organization of records above) and that not all cash balances were reconciled to the clerk's trial balance at year end.

Fixed Asset Accounting: The Village should keep records of assets that are purchased and sold each year, categorized by fund and type, i.e., land, buildings, equipment and vehicles. Additionally, the list should include the purchase date and cost. The Council should adopt a capitalization policy to support the amount of \$5,000 used to prepare the financial statements or some other reasonable amount for their situation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

External Financial Reporting: The Village does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles. According to newly issued auditing standards this inability to prepare financial statements in accordance with generally accepted accounting principles is an indicator of a significant deficiency and a strong indicator of a material weakness in internal control.

We did note the Village's management does prepare and monitor the annual budget. The accounting system which is designed primarily for budgetary purposes is also used as the source information in preparing the financial statements in accordance with generally accepted accounting principles with some adjustment, format differences and note disclosures.

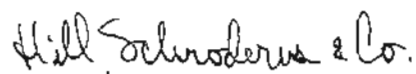
Interfund Balances: The due to and due from other fund accounts should be reconciled on a regular basis to determine they balance between funds and to transfer the cash as necessary in an effort to eliminate these as soon as possible.

We have also noted other matters for your consideration:

General Equipment Fund: The Village currently maintains an internal service fund for equipment as well as a General Equipment Fund. Keeping another set of fund records should be unnecessary. A designation in an existing fund for future specific equipment purchases should be sufficient.

Computer Usage: The Village computer should be updated to allow for access to the internet with appropriate virus protection to allow for update of the Village's website, etc. Currently, Village personnel are using their own personal computers for some Village computer activity.

This communication is intended solely for the information and use of management, Village Council, others within the organization, and State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.



HILL, SCHRODERUS & CO.
Certified Public Accounts